This is Zach Harrington, Chief Investment Officer at Rise Advisors, and I want to thank you for taking the time to watch our market update for the month of October, 2022. As we sit here in October of 2022, it has certainly been a challenging start to the year, but I think that there's a lot of opportunity that is presenting itself in capital markets here as we start the fourth quarter, especially given how volatile the month of September was and how volatile the year has been. A lot of times when investors kind of look into performance expectations and how years shake out, a lot of investors who are asset allocated are really used to consistent returns. And in bad years on the stock side your equities are underperforming, but your bonds are sitting there acting as a ballast. And this year has not been that case.

But as we look at the Bear Market we've been in, whether it is the amount of sheer days we've been in the bear market or some of the overall performance, we are certainly getting to historic levels where there's opportunity here for long term investors. We really consider this to be the seventh inning stretch. We're here in October, it's MLB playoffs and we are deep into the game here when it comes to the 2022 bear market. And we think that investors should be really looking at this as an opportunity for longer term horizons. When we look at the 60-40 investors over the last, you know, give or take 35 years, some of the worst years you've seen are late seventies where you're dealing with stagflation. Some of the credit issues of the early eighties, the tech bubble in 2000, 2008, great recession in some of the pullbacks we felt in slowing growth as we went into a rate hiking cycle here in ‘15, 2022 blows all of that out of the water.

And you're sitting here, this chart you're looking at is that 60-40 domestic US to domestic US bond portfolio through the month of August. The portfolio's down another 7% in the month of September. But this is a nice visualization of how volatile things have been. The important thing to look at here though, is after these down periods of time, how strong these 60-40 portfolios perform moving forward. So when we look at the portfolio right now, volatility for this year has been an understatement. This is a percentage of days the S&P 500 was down greater than 1% through the third quarter. So this is through the end of September. And in a normal year, you're looking at somewhere between five and 10% of the days where the market is down more than 1%. So, two times a month, maybe three times in a more volatile month, the S&P is down 1% or greater. So far in 2022, going back over the last 32 years, there's only been two times you've experienced this much equity volatility, the great recession of 2008, and the tech bubble of the early 2000s.

You're sitting here today in mid-October and basically one in four days, the S&P 500 is down greater than 1% here in 2022. But once again, we feel that this is really an opportunity where you've weathered nine and a half months of this level of volatility, and you should be really looking to make sure that you are set up well for 2023. To be able to capture some of these really strong “up-years” for diversified investors who are patient.

When we look at what's been driving volatility, a lot of it has been Federal reserve driven. Over these last 12 months, a lot of folks have been concerned over inflation not being transitory and the Federal Reserve having to reverse what has been really accommodative fiscal policy and monetary policy starting in the pandemic and having to reverse course. And that's exactly what they've had to do.

So they wanted to dip their toes in the water here at the start of the year. They did a 25 to 50 basis point rate hike on their initial start here to start 2022. And then within a seven- or eight-month period getting out to basically September of this year, they went from zero to about 3 to 325 basis points, or 3% to 3.25%. We have not experienced that fast of a rate hike since 1994 where we went from virtually zero to that 3% to 3.25% mark, but it took an entire calendar year to get there. Now, we did it in about half the amount of time.

So as yields have come up, as rates have increased as concerns of growth slowing and consumer demand coming to a stop have increased, investors have really been panicked and asset prices have reflected that. When you look at some of these more normal cycles, you know, you're looking at rate hikes over a 12-to-18-month period that come nowhere near how fast we've done this. It really is something we have not experienced. But when you look at things right now, the Federal Reserve is really trying to use the biggest tool in their arsenal, which is the Fed fund rate. And the goal of manipulating the Fed fund rate is to crush demand. And by crushing demand, you're able to help the supply chain catch back up and get back to more normal market and economic conditions. And in their September FOMC meeting, they outlined what their view is over the rest of 2022, 2023, and 2024, as it pertains to how they are going to use and manipulate their Fed fund rate to help kind of slow growth and then probably begin to cut rates again to get growth back up and running based on the demand destruction.

And these numbers are a little bit skewed, these were from September 15th, if you look right here, but the chart is a nice illustration. In their late September FOMC meeting, they actually outlined said they were gonna get to about 4.5% by year end, which brings us up into this area right here, but they still stayed on this glide path. But their goal is to get back below four by the end of 2023 and over the long run, get to that two and a half timeframe.

So, what does that mean for a diversified investor? What it means is you have a tremendous opportunity here to take advantage of the bond side of your portfolio, beginning to look to add duration into the portfolio, go a little bit further out on that yield curve and be able to have some real total return potential as the Fed eventually has to pivot.

Now a lot of questions we've been getting from clients here at RISE Advisors is, what if the pivot becomes delayed? What if inflation remains persistent and they have to keep increasing the basically Fed fund rate to help try and continue to hedge against inflation? When you look at where we were to start the year versus where we are right now, you have real yield out there in these bond portfolios. So, if you look at the US aggregate bond index, which is kind of the flagship investment grade bond index, you're getting about a four and a third percent yield as of mid-September. And so, when we look at the risk of if rates continue to rise every 1% versus reward, if they fall 1% as an AGG like bond investor, your downside risk for a 1% rise in interest rates is 2%. So, you're gonna have a duration of a little over six, so you'd lose about 6% in price, but you're getting about a 4% and a 3% yield and you'd have about a negative 2% downside risk from a total return standpoint.

But the real attractive opportunity here is to the upside. When you look at the upside as a bond investor looking to add duration into your bond portfolio right now, you are going to be in a position here where your upside potential is in the low double digits as the fed eventually pivots and as they have to begin to cut interest rates to help restimulate economic activity.

So that's our real look and opportunity of what's taking place in your portfolio. The equity markets you need to be patient equity markets are not necessarily indicative of the economy, but what they are is a really good long-term inflation hedge and a very good long-term investment opportunity. The bond market here can give you an opportunity over the shorter term over the next 2, 3, 4 years to have some really nice total return potential as the Fed begins to round out their rate hiking schedule and begin to cut rates to restimulate activity.

This is a little bit of a complex concept, adding duration back into the bond portfolio. This really is an opportunity if you had cut or run the shorter side of the duration curve. But we think this is a really nice opportunity for investors and something they should be looking at here in October as we kind of get through the seventh inning stretch of this bear market.

Once again, thank you for taking the time to listen to this. This is our October market update for Rise Advisors. I am Zach Harrington. Thank you and have a great.